

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(74) 1893 final

Brussels, 14 November 1974

ACTION TO BE TAKEN BY ITALY AS A CONDITION OF RECEIVING THE MEDIUM-TERM LOAN

(Communication from the Commission to the Council)

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MEDIUM-TERM FINANCE TO ITALY

Introduction

Although the medium-term financial assistance to be granted to Italy is based on legal provisions other than those for short-term monetary support, it does in fact, economically and financially, serve to fund the latter.

Italy's economic situation, its balance of payments difficulties and the state of its foreign exchange reserves leave no doubt that the Community should continue to help meet Italy's financing requirements and that the grant of medium-term financial assistance is a matter of urgency.

At its meeting on 16 September, the Council requested the Commission to draw up in collaboration with the Monetary Committee and the Committee of Governors of Central Banks, and within three months of that date, proposals relating to the implementation of medium-term financial assistance to Italy. In collaboration with the Monetary Committee the Commission made a thorough examination of Italy's situation, primarily in the "ad hoc Working Party on Italy", under the chairmanship of Mr de Strycker. This working party met several times in Rome and Brussels. At its meeting on 6 and 7 November, the Monetary Committee made a thorough examination of the conclusions submitted to it by the ad hoc Working Party on Italy, and then reported to the Council and the Commission. Since short-term monetary support is due to expire on 18 December 1974, and in view of the urgency of granting medium-term financial assistance to Italy, it is desirable for the Commission, which is now in possession of the Monetary Committee's opinion to make a proposal to the Council on the granting of assistance at the Council meeting on 18 November next.

Four points should be made concerning the financial conditions:

- a) The proposed financial assistance amounts to:
1 562.5 million u.a., or \$1 884.9 million, this being exactly the sum already paid to the Banca d'Italia on 18 March 1974, the date on which short-term monetary support was actually used.
- b) The provisions governing the currency denomination of medium-term financial assistance are different from those governing the currency denomination of short-term monetary support. Nevertheless, since a short-term debt is being funded by medium-term assistance, it is suggested that the amount of medium-term assistance be made available to the Italian Republic in US dollars at the rate of \$1.20635 per u.a., applicable for the entire duration of the assistance. It is however possible that some Member States will request that the assistance be denominated in the national currencies of the creditors; in such a situation, which should preferably be avoided for a number of broadly technical reasons, the different national currencies should be valued for the entire duration of the contract at conversion rates fixed in relation to the u.a., as has been done for the US dollar in the abovementioned case.
- c) The minutes of the Council decision of 22 March 1971 lay down that the interest rate for medium-term assistance should be the average of the rates charged by the IMF for equivalent periods and the market rate for equivalent periods. The IMF rate is at present 4 7/8% and the Eurodollar market rate 10.5%. Since it is not in any case possible to choose the market rate ruling on a single day, it would be more reasonable in this context to use the average of the real market rates ruling between the date of the Commission proposal and the date on which the medium-term assistance is actually granted. If national currencies were involved, the calculation of interest rates would obviously be complicated by the need to refer to a larger number of market rates.

- d) It is possible that two or even three Member States will request to be exempted from all or part of their contribution to the financing of this operation, invoking Article 4 of the Council Decision of 22 March 1971. Nevertheless, it is not desirable for the Commission to take this possibility into consideration in the draft directive to be sent to the Council. Apart from the major questions of policy and of examining the position of States wishing to be exempted from helping to finance the operation, there is also the question of interest rates where the exempted states nevertheless take part through extending their short-term monetary support.

As regards the economic policy conditions contained in the attached draft, it should be noted that Article 6 refers to general short-term economic policy measures to be taken by the Italian authorities, whereas Article 7 refers to essentially structural measures intended to improve the Italian economy during and even beyond the duration of medium-term assistance.

RECOMMENDATION FOR A COUNCIL DIRECTIVE
GRANTING MEDIUM-TERM FINANCIAL ASSISTANCE TO THE ITALIAN REPUBLIC

THE COUNCIL,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 108 (2) thereof;

Having regard to the Recommendation from the Commission, which consulted the Monetary Committee on the matter;

whereas Council Decision 71/143/EEC of 22 March 1971 setting up machinery for medium-term financial assistance provides that up to the ceilings laid down in that Decision, mutual assistance in the form of a loan may be granted to a Member State in difficulties or seriously threatened with difficulties as regards its balance of payments, with the Council determining what economic policy undertakings the recipient Member State must enter into;

whereas intensive consultations with the Commission and the Member States have been held in the Monetary Committee on the situation of the Italian Republic; whereas these consultations have shown that this Member State is facing real balance of payments difficulties which, if they were to continue, could jeopardize the proper functioning of the common market; whereas in view of the present economic situation in Italy and the state of its foreign exchange reserves, medium-term financial assistance is a particularly suitable measure to counter these difficulties;

whereas, pursuant to Article 3 of the abovementioned decision, it is necessary to determine what economic policy commitments are to be entered into, made up both of immediate stabilization measures relating especially to credit policy and public spending, and also of medium-term measures; whereas the nature of such measures has been discussed in detail in the Monetary Committee;

whereas the main objective of these measures must be to achieve in 1975 a surplus of at least \$ 1 000 million on the Italian trade balance, leaving aside net imports of petroleum products;

HAS ADOPTED THIS DIRECTIVE:

Article 1

Acting under its decision of 22 March 1971, the Council shall grant the Italian Republic medium-term financial assistance on the terms set out below.

Article 2

The amount of the financial assistance shall be 1 562.5 million u.a. The share of this assistance to be borne by each Member State is fixed in Annex 1.

Article 3

The full amount of the assistance will be made available to the Italian Republic on 18 December 1974.

The loan shall be repaid in 1978 in four quarterly payments, the first being made on 18 March 1978.

The Italian Republic may repay all or part of the loan in advance, giving three months' notice.

Article 4

This amount shall be made available to the Italian Republic in United States dollars at the rate of \$ 1.20635 per unit of account, applicable for the entire duration of the assistance.

The loan is granted at an interest rate of $\left[x \% \right]$. The interest shall be payable every six months in arrears.

Article 5

The assistance referred to in this Directive shall be granted on the conditions set out in Articles 6 and 7 relating to the economic and monetary policy measures to be taken by the Italian Republic.

Article 6

- 1) The increase in total lending must be kept below Lit. 22 400 000 million in the twelve months to 31 March 1975. For the period from 1 April 1975 to 31 March 1976, this increase must not exceed Lit. 24 700 000 million.

By total lending is meant the financing of Treasury deficits (excluding financial assistance to financial intermediaires), loans granted by Italian commercial banks and by the specialized financial institutions and bonds issued by undertakings and public authorities other than the Treasury.

- 2) The rate of increase of central government expenditure must not exceed 16 % in the 1975 calendar year. In addition, the central government shall take steps to ensure that the other public authorities and the social security institutions limit the growth of their expenditure in 1975 to a similar extent.
- 3) The deficit on Treasury transactions must exceed Lit. 8 000 000 million in 1975. By Treasury transactions are not meant those listed in Annex 2.

Article 7

- 1) The Italian authorities shall immediately take measures to eliminate gradually over the next five years the gap between central government current expenditure and revenue.

To this end :

- expenditure and the number of semi-public organizations shall be restricted;
- direct taxes shall be increased and the campaign to combat tax evasion stepped up;
- special efforts shall be made to improve administrative organization and to prevent the transfer of powers from central government to regional authorities from leading to duplication of tasks.

- 2) In the next five years, monetary financing of Treasury requirements must be gradually and substantially reduced.

- 3) In public capital spending priority shall be given to the development of public transport and increased use of autonomous energy sources.
- 4) Savings shall be made in the consumption of petroleum products for domestic use.
- 5) The relevant authorities shall take the necessary steps, making use where necessary of the Community instruments available, in particular the Social Fund, to improve the operation of placement services and the vocational training of workers.
- 6) Special effort should be made to promote and assist foreign investment in Italy and more particularly in the Mezzogiorno.
- 7) Detailed plans for implementing the measures provided for in this Article shall be communicated to the Commission before 30 June 1975.

Article 8

Before 1 December 1975, the Council shall, on a recommendation from the Commission, adapt for the following year the conditions laid down in Article 6.

Article 9

The Commission, in collaboration with the Monetary Committee, shall regularly check that the economic policy conditions laid down in Articles 6 and 7 above are being respected. For this purpose, the Italian authorities shall communicate to the Commission all the necessary information.

As regards the measures provided for in Article 6, intermediate objectives shall be jointly agreed during the year by the Italian authorities and the Commission.

Article 10

This Directive is addressed to the Member States.

The contribution of each member state to this assistance is as follows:

Germany	403.3 million u.c.		
United Kingdom	403.3	"	"
France	403.3	"	"
Belgium Luxemburg	134.4	"	"
Netherlands	134.4	"	"
Denmark	60.4	"	"
Ireland	23.4	"	"

1. Budgetary cash receipts
 2. Budgetary cash expenditures
 3. Budgetary cash deficit (1 - 2)
Extra-budgetary operations
 4. As appear in the Balance Sheet on the Treasury
 5. Others
 6. Overall Treasury cash deficit (3 + 4 + 5)
Operations of the CDP and other autonomous entities
 7. Main expenditures of the CDP
 8. Net financing requirements of the autonomous entities
 9. Borrowing requirement (6 + 7 + 8)
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